

***Financial Statements
Years Ended
June 30, 2012 and 2011***



Hampton Roads Planning District Commission

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DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

Board of Directors

Hampton Roads Planning District Commission

We have audited the accompanying statements of net assets of ***Hampton Roads Planning District Commission*** as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of ***Hampton Roads Planning District Commission's*** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Hampton Roads Planning District Commission*** as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2012, on our consideration of ***Hampton Roads Planning District Commission's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in

the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of ***Hampton Roads Planning District Commission*** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of American. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Dixon Hughes Goodman LLP

Norfolk, Virginia
September 11, 2012

Hampton Roads Planning District Commission

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the Hampton Roads Planning District Commission's (Commission) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Commission for the year ended June 30, 2012. The information contained in this MD&A should be considered in conjunction with the financial statements and various historic summaries of activities and financial performance included in the basic financial statements following.

In the fall of 2008, the Commission was reorganized to better reflect the efforts of the transportation staff in performing the planning, technical, and administrative duties of the regional Metropolitan Planning Organization in accordance with regulations as determined by the US Department of Transportation and the Virginia Department of Transportation. These duties were organized into a new and separate function entitled Hampton Roads Transportation Planning Organization (HRTPO). This new function has two memorandums of understanding between the HRTPO and the Commission. The first addresses the concept that the Commission "shall provide the planning and administrative staff to the HRTPO" and all duties thereof. The second addresses the concept that the HRTPO "desires that the Commission serve as fiscal agent for the HRTPO" and all duties thereof. In this capacity, the Financial Statements of the Hampton Roads Planning District Commission cover all the activities involved in administering the financial aspects of the Hampton Roads Transportation Planning Organization.

The following tables present the financial condition and operations of the Commission for the three years ending June 30, 2012, 2011 and 2010. The *Statements of Net Assets* include the current cash and long-term capital assets of the Commission. The *Statements of Revenues, Expenses and Changes in Net Assets* contain all of the years' revenues and expenses. The *Statements of Changes in Net Assets* further delineate the areas of fiduciary responsibility within the net assets category.

Statements of Net Assets

| | 2012 | 2011 | 2010 |
|--------------------------------------------------|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$ 3,896,300 | \$ 4,878,596 | \$ 4,701,255 |
| Capital assets – net of accumulated depreciation | 1,332,676 | 1,388,354 | 1,543,565 |
| Other assets - investments | 1,000,072 | 300,354 | 400,761 |
| | <u>\$ 6,229,048</u> | <u>\$ 6,567,304</u> | <u>\$ 6,645,581</u> |
| Liabilities and Net Assets | | | |
| Current liabilities | \$ 984,851 | \$ 1,077,683 | \$ 1,202,482 |
| Other liabilities: | | | |
| Accrued post retirement benefit liability | 623,874 | 438,731 | 279,948 |
| Net assets | <u>4,620,323</u> | <u>5,050,890</u> | <u>5,163,151</u> |
| | <u>\$ 6,229,048</u> | <u>\$ 6,567,304</u> | <u>\$ 6,645,581</u> |

Statements of Revenues, Expenses and Changes in Net Assets

| | 2012 | 2011 | 2010 |
|--------------------------------------------------------------------------------|---------------------|---------------------|-------------------|
| Operating revenues | | | |
| Local | \$ 3,990,202 | \$ 3,675,762 | \$ 3,725,803 |
| State (including federal pass-through) | 5,497,203 | 5,985,203 | 8,341,341 |
| Total operating revenues | <u>9,487,405</u> | <u>9,660,965</u> | <u>12,067,144</u> |
| Operating expenses | | | |
| Personnel | \$ 4,327,892 | \$ 4,044,294 | \$ 3,984,131 |
| Pass-through and special contract expenses | 4,590,056 | 4,927,524 | 7,086,075 |
| Transportation pass-through expenses | 518,173 | 274,637 | 370,822 |
| Office services | 388,847 | 417,736 | 465,567 |
| Total operating expenses | <u>9,824,968</u> | <u>9,664,191</u> | <u>11,906,595</u> |
| Operating income (loss) before depreciation | (337,563) | (3,226) | 160,549 |
| Depreciation | <u>147,629</u> | <u>160,902</u> | <u>158,337</u> |
| Operating income (loss) | (485,192) | (164,128) | 2,212 |
| Contributions, assessments and miscellaneous Non-operating revenues | <u>54,625</u> | <u>51,867</u> | <u>436,481</u> |
| Change in net assets | <u>\$ (430,567)</u> | <u>\$ (112,261)</u> | <u>\$ 438,693</u> |

Statements of Changes in Net Assets

| | 2012 | 2011 | 2010 |
|--------------------------------------------------|---------------------|---------------------|---------------------|
| Net assets | | | |
| Invested in capital assets - net of related debt | \$ 1,332,676 | \$ 1,388,354 | \$ 1,543,565 |
| Unrestricted: | | | |
| Commission designated | 961,445 | 1,338,933 | 1,325,208 |
| Unrestricted for Commission activities | 2,326,202 | 2,323,603 | 2,294,378 |
| Total unrestricted | <u>3,287,647</u> | <u>3,662,536</u> | <u>3,619,586</u> |
| Net Assets | <u>\$ 4,620,323</u> | <u>\$ 5,050,890</u> | <u>\$ 5,163,151</u> |

Financial Highlights

Overall revenues, and expenditures, were down \$173,560 mainly due to a delay in UASI and MMRS program activity that will occur in FY2013 instead of in FY2012 as anticipated.

Expenditures were up \$ 160,077 due to both increased activity in Transportation pass-through projects as well as increased personnel costs as a result of internal position reclassifications, turnover, and approved performance increases.

The \$485,192 operating loss was a result of increased activity in Commission designated programs that were expensed in FY2012 but whose revenues were received in prior fiscal years.

The \$314,000 increase in Local Operating Revenues shown on the first line of the above schedule is a result of increased program activity in Regional Stormwater and Wastewater programs as well as an increase in population which is the basis for the per capita contribution.

The financial statements of the Hampton Roads Planning District Commission (Commission) for the year ended June 30, 2012 indicate a \$374,889 decrease in assets in the total unrestricted net assets of the Commission (see the Statement of Changes in Net Assets). This overall decrease can be attributed to the expenditure of revenues received and recorded in prior years.

The liability for compensated balances increased this year by \$23,203, mainly due to longevity of staff.

While the total unrestricted net assets decreased by \$374,889, the portion of the unrestricted reserve that is not commission designated increased by \$2,599, to \$2,326,202, thus giving the Commission lightly more funding for unanticipated projects in future periods.

Please note that the Commission is now required to report post retirement liabilities under GASB Statement No. 45: *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). This Statement requires that the Commission recognize the cost of the retiree health subsidy during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability to accurately account for the total future cost of post-employment benefits and the financial impact on the Commission. An actuarial study was conducted in 2009 and again in 2011, and as a result, this liability has been established at amounts designated by the study. *Please see footnote 9 for more details.*

Statements of Revenues, Expenses and Changes in Net Assets

This statement details the \$430,567 net decrease in total net assets.

Statements of Changes in Net Assets

This last statement details the various categories available within the Commission's net assets. Most of this decrease is a result of expending revenues received in prior years and posted as Commission designated programs.

Requests for Information:

This financial report is designed to provide our citizens with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to: Hampton Roads Planning District Commission, Chief Financial Officer, 723 Woodlake Drive, Chesapeake, Virginia 23320.

Hampton Roads Planning District Commission
Statements of Net Assets

| June 30, | 2012 | 2011 |
|---------------------------------------------------------|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,563,810 | \$ 2,750,949 |
| Accounts receivable | 926,072 | 1,104,033 |
| Other current assets: | | |
| Prepaid expenses | 5,822 | 22,124 |
| Investments | 400,596 | 1,001,490 |
| Total current assets | <u>3,896,300</u> | <u>4,878,596</u> |
| Capital assets - net of accumulated depreciation | 1,332,676 | 1,388,354 |
| Other assets | | |
| Investments | <u>1,000,072</u> | <u>300,354</u> |
| | <u>\$ 6,229,048</u> | <u>\$ 6,567,304</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 140,540 | \$ 401,520 |
| Bank overdraft | 87,188 | 3,814 |
| Compensated absences | 606,008 | 582,805 |
| Contracts payable | 134,400 | 79,282 |
| Unearned revenue | - | - |
| Other current liabilities | 16,715 | 10,262 |
| Total current liabilities | <u>984,851</u> | <u>1,077,683</u> |
| Other liabilities | | |
| Accrued post-retirement benefit liability | <u>623,874</u> | <u>438,731</u> |
| Net assets | | |
| Invested in capital assets - net of related debt | <u>1,332,676</u> | <u>1,388,354</u> |
| Unrestricted: | | |
| Unrestricted | 2,326,202 | 2,323,603 |
| Unrestricted - commission designated | 961,445 | 1,338,933 |
| Total unrestricted net assets | <u>3,287,647</u> | <u>3,662,536</u> |
| Total net assets | <u>4,620,323</u> | <u>5,050,890</u> |
| | <u>\$ 6,229,048</u> | <u>\$ 6,567,304</u> |

The accompanying notes are an integral part of these financial statements.

Hampton Roads Planning District Commission

Statements of Revenues, Expenses and Changes in Net Assets

| Years Ended June 30, | 2012 | 2011 |
|--------------------------------------------------------------------------------------|---------------------|---------------------|
| Operating revenues | | |
| Local: | | |
| Contract revenue | \$ 2,294,172 | \$ 2,004,866 |
| Contributions by participating jurisdictions | 1,362,766 | 1,342,562 |
| MMRS Local Assessment | 333,264 | 328,334 |
| | <u>3,990,202</u> | <u>3,675,762</u> |
| State (including federal pass-through): | | |
| Virginia Department of Transportation | 2,144,140 | 1,999,107 |
| Virginia Department of Emergency Management - UASI | 2,071,516 | 1,778,335 |
| Virginia Department of Emergency Management - MMRS | 794,940 | 997,466 |
| Virginia Department of Environmental Quality | 155,648 | 120,034 |
| Virginia Department of Housing and Community Development State Allocation to the PDC | 151,943 | 132,124 |
| Virginia Department of Emergency Management - other | 105,195 | 888,676 |
| Virginia Department of Housing and Community Development Loan Funds | 59,300 | 45,900 |
| Williamsburg Area Transit | 10,000 | 10,000 |
| Virginia Department of Rehabilitative Services | 4,521 | 13,561 |
| | <u>5,497,203</u> | <u>5,985,203</u> |
| Total operating revenues | <u>9,487,405</u> | <u>9,660,965</u> |
| Operating expenses | | |
| Passthrough and special contract expenses | 4,590,056 | 4,927,524 |
| Personnel | 4,327,892 | 4,044,294 |
| Transportation passthrough expenses | 518,173 | 274,637 |
| Office services | 388,847 | 417,736 |
| Total operating expenses | <u>9,824,968</u> | <u>9,664,191</u> |
| Operating loss before depreciation | <u>(337,563)</u> | <u>(3,226)</u> |
| Depreciation | <u>147,629</u> | <u>160,902</u> |
| Operating loss | <u>(485,192)</u> | <u>(164,128)</u> |
| Nonoperating revenues | | |
| Interest income | 10,941 | 16,910 |
| Unrealized loss on investments | (53) | (587) |
| Contributions, assessments and miscellaneous non-operating revenues | 43,737 | 35,544 |
| Total nonoperating revenues | <u>54,625</u> | <u>51,867</u> |
| Change in net assets | <u>(430,567)</u> | <u>(112,261)</u> |
| Net assets - beginning of year | <u>5,050,890</u> | <u>5,163,151</u> |
| Net assets - end of year | <u>\$ 4,620,323</u> | <u>\$ 5,050,890</u> |

The accompanying notes are an integral part of these financial statements.

Hampton Roads Planning District Commission

Statements of Cash Flows

| Years Ended June 30, | 2012 | 2011 |
|-----------------------------------------------------------------------|---------------------|---------------------|
| Cash flows from operating activities | | |
| Cash receipts from localities and grants | \$ 9,665,366 | \$ 9,905,811 |
| Cash payments to suppliers | (5,596,809) | (5,792,238) |
| Cash payments to employees | (4,119,546) | (3,850,516) |
| Net cash from operating activities | (50,989) | 263,057 |
| Cash flows from capital and related financing activities | | |
| Contributions, assessments and miscellaneous non-operating revenues | 43,737 | 35,544 |
| Acquisition of capital assets | (91,951) | (5,691) |
| Net cash flows from capital and related financing activities | (48,214) | 29,853 |
| Cash flows from investing activities | | |
| Interest received | 10,941 | 16,910 |
| Purchases of investments | (98,877) | (75,000) |
| Net cash from investing activities | (87,936) | (58,090) |
| Net change in cash and cash equivalents | (187,139) | 234,820 |
| Cash and cash equivalents - beginning of year | 2,750,949 | 2,516,129 |
| Cash and cash equivalents - end of year | \$ 2,563,810 | \$ 2,750,949 |
| Reconciliation of change in net assets to cash from operations | | |
| Operating loss | \$ (485,192) | \$ (164,128) |
| Adjustments to reconcile to net cash from operating activities: | | |
| Depreciation | 147,629 | 160,902 |
| Change in: | | |
| Accounts receivable | 177,961 | 244,846 |
| Prepaid expenses | 16,302 | (12,547) |
| Accounts payable and accrued expenses | (260,980) | (174,008) |
| Compensated absences | 23,203 | 34,995 |
| Contracts payable | 55,118 | 11,842 |
| Other current liabilities | 89,827 | 2,372 |
| Accrued post-retirement benefit liability | 185,143 | 158,783 |
| | \$ (50,989) | \$ 263,057 |

The accompanying notes are an integral part of these financial statements.

Hampton Roads Planning District Commission

Notes to Financial Statements

June 30, 2012 and 2011

1. Organization and Nature of Business

Hampton Roads Planning District Commission (Commission) is a regional planning agency authorized by the Virginia Area Development Act of 1968 and created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the Counties of Gloucester, Isle of Wight, James City, Southampton, Surry and York. Revenues of the Commission are received primarily from local government (member) contributions and various state and federal grant programs.

In the fall of 2008, the Commission was reorganized to better reflect efforts of the transportation staff in performing the planning, technical, and administrative duties of the regional Metropolitan Planning Organization (MPO) in accordance with regulations as determined by the Federal Highway Administration and the Virginia Department of Transportation. These duties were organized into a new function entitled Hampton Roads Transportation Planning Organization (HRTPO). HRTPO has two Memorandums of Understanding with the Commission. The first addresses the concept that the Commission “shall provide the planning and administrative staff to HRTPO” and all duties thereof. The second addresses the concept that HRTPO “desires that the Commission serve as fiscal agent for HRTPO” and all duties thereof. In this capacity, the audited financial statements of the Commission cover all the activities involved in administering the financial aspects of HRTPO.

2. Summary of Significant Accounting Policies

Reporting Entity

The Commission’s governing body is composed of various members appointed by each of the sixteen participating jurisdictions. These governmental entities have an ongoing financial responsibility to the Commission because its continued existence depends on the continued funding by the participants. The Commission is perpetual and no participating government has access to its resources or surpluses, nor is any participant liable for the Commission’s debt or deficits.

The Commission is not a component unit of any of the participating governments. There are no component units to be included in the Commission’s financial statements.

Basis of Accounting

The Commission utilizes the economic resources management focus and the accrual basis of accounting in preparing its financial statements. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. The Commission has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Commission has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

The Statement of Net Assets presents the Commission's assets and liabilities, with the difference reported as net assets. Net assets are categorized into three components:

Invested in capital assets - net of related debt - represents the Commission's total investment in capital assets, net of accumulated depreciation reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net assets - result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - consist of net assets which do not meet the definition of the two preceding categories.

Cash and Cash Equivalents

The Commission includes all cash accounts not subject to withdrawal restrictions or penalties and all highly liquid debt investments purchased with an original maturity of three months or less as cash and cash equivalents in the accompanying statement of net assets.

Accounts Receivable

The Commission considers all accounts receivable to be fully collectible; accordingly, no allowance is required at June 30, 2012 and 2011. Concentration of credit risk with respect to accounts receivables are limited due to the number of grantors, many of which are federal government grants.

Capital Assets

Capital assets are recorded at cost. Depreciation is computed on the straight-line method over the following estimated useful lives:

| | |
|--------------------------------|----------|
| Building and improvements | 40 years |
| Office furniture and equipment | 5 years |
| Automobiles | 5 years |

Maintenance and ordinary repairs are charged to expense as incurred. Expenditures greater than \$5,000 which materially increase values, change capacities, or extend useful lives are capitalized.

Investments

The Commission accounts for investments at fair value.

Advertising

The Commission expenses advertising costs as they are incurred. Advertising expense for 2012 and 2011 was \$1,218 and \$12,816, respectively.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosures of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Budgets and Budgetary Accounting

The Commission's annual budget is a management tool that assists users in analyzing financial activity for its June 30 fiscal year. The Commission's primary funding sources are federal and state grants and local subsidies, which have periods that may or may not coincide with the Commission's fiscal year. These grants and subsidies are normally for a twelve-month period; however, they may be awarded for periods shorter or longer than twelve months.

Because of the Commission's dependency on federal, state and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The Commission's annual budget differs from that of a local government due to the uncertain nature of grant awards from other entities.

The resultant annual budget is subject to constant change within the fiscal year due to:

- Increases/decreases in actual grant awards from those estimated;
- Unanticipated grant awards not included in the budget; and
- Expected grant awards that fail to materialize.

The Commissioners formally approve the annual budget in April, before the fiscal year begins. Due to grant expirations and new awards, amendments are made in November and May of each year.

Comparative Figures

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 11, 2012, the date the financial statements were available to be issued.

3. Cash, Cash Equivalents and Investments

Deposits

At June 30, 2012 and 2011, the carrying amount of the Commission's deposits with banks was \$23,099 and \$14,602, respectively, and the bank balances were \$329,139 and \$483,939, respectively. Deposits are covered by the Virginia Security for Public Deposits Act (the Act) at June 30, 2012. The entire bank balance was covered by FDIC at June 30, 2012. Under the Act, banks holding public deposits in excess of the amounts insured by Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Commission. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro-rata basis to the members (banks and savings and loans) of the pool. Therefore, these deposits are considered collateralized and, as a result, are considered insured.

\$1,802,313 and \$1,999,072 at June 30, 2012 and 2011, respectively, were invested in a U.S. government money market mutual fund. These investments are covered by the investment firm's (Scott & Stringfellow's) insured deposit program which consists of monies held in non-interest bearing deposit accounts at multiple banking institutions. These assets are eligible for FDIC coverage up to \$250,000 per depositor per institution per category. The U.S. government money market fund is a money market mutual fund that owns U.S. government securities and repurchase agreements that are collateralized by U.S. government securities. The fund meets all investment guidelines under the Code of Virginia and is an eligible investment under the Code of Virginia Investment Guidelines. Cash and cash equivalents, as represented on the statements of net assets, includes petty cash of \$125 at June 30, 2012 and 2011.

Investments

Investment Policy

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2012 and 2011, the Commission had an investment of \$738,273 and \$737,150, respectively, in the LGIP which is appropriately classified as a cash equivalent since the Commission's LGIP funds are held in money market funds.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Commission's portfolio will be invested in the securities of any one issuer with the exception of: (1) the U.S. government or Agencies thereof, (2) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. government or Agencies thereof, and (3) mutual funds whereby the portfolio is limited to U.S. government or Agency securities.

Interest Rate Risk

As of June 30, 2012 and 2011, the Commission had the following investments:

| Investment Maturities (in Years) as of June 30, 2012 | | | | | |
|------------------------------------------------------|--------------|------------|--------------|--------|---------|
| Investment Type | Less Than | | | | More |
| | Fair Value | 1 | 1 - 5 | 6 - 10 | Than 10 |
| Fixed income bonds - various | \$ 1,400,668 | \$ 400,596 | \$ 1,000,072 | \$ - | \$ - |

| Investment Maturities (in Years) as of June 30, 2011 | | | | | |
|------------------------------------------------------|--------------|--------------|------------|--------|---------|
| Investment Type | Less Than | | | | More |
| | Fair Value | 1 | 1 - 5 | 6 - 10 | Than 10 |
| Fixed income bonds - various | \$ 1,301,844 | \$ 1,001,490 | \$ 300,354 | \$ - | \$ - |

The Commission is exposed to little interest rate risk since all investments had fixed interest rates at June 30, 2012 and 2011.

4. Capital Assets

Summary of capital assets is as follows:

| | Balance June 30, 2011 | Increases | Decreases | Balance June 30, 2012 |
|----------------------------------------------------------------------|--------------------------|-------------|-----------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 80,621 | \$ - | \$ - | \$ 80,621 |
| Total capital assets not being depreciated at historical cost | 80,621 | - | - | 80,621 |
| Other capital assets: | | | | |
| Building and improvements | 2,181,343 | - | - | 2,181,343 |
| Office furniture and equipment | 831,637 | 91,951 | (102,105) | 821,483 |
| Automobiles | 76,886 | - | - | 76,886 |
| Total other capital assets at historical cost | 3,089,866 | 91,951 | (102,105) | 3,079,712 |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (1,003,230) | (73,026) | - | (1,076,256) |
| Office furniture and equipment | (708,850) | (70,503) | 102,105 | (677,248) |
| Automobiles | (70,053) | (4,100) | - | (74,153) |
| Total accumulated depreciation | (1,782,133) | (147,629) | 102,105 | (1,827,657) |
| Total capital assets being depreciated, net | 1,307,733 | (55,678) | - | 1,252,055 |
| Capital assets - net | \$ 1,388,354 | \$ (55,678) | \$ - | \$ 1,332,676 |

5. Retirement Plans

Defined Benefit Pension Plan

Plan Description

| | |
|-------------------------|--------------------------------------------------------------------------|
| Name of Plan: | Virginia Retirement System (VRS) |
| Identification of Plan: | Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan |
| Administering Entity: | Virginia Retirement System |

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2011-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Commission's contribution rate for the fiscal year ended June 30, 2012, was 4.9% of annual covered payroll (9.9% - total employee and employer contributions).

Annual Pension Cost

For the fiscal years ended June 30, 2012 and 2011, the Commission's annual pension costs of \$312,279 and \$291,655, respectively, for VRS were equal to the required and actual contributions.

Three-Year Trend Information for Hampton Roads Planning District Commission

| Fiscal Year Ended | Annual Required Contribution (ARC) | Percentage of ARC Cost Contributed | Net Pension Obligation |
|--------------------------|-------------------------------------------|-------------------------------------------|-------------------------------|
| 6/30/10 | \$ 219,699 | 100% | \$ - |
| 6/30/11 | \$ 291,655 | 100% | \$ - |
| 6/30/12 | \$ 312,279 | 100% | \$ - |

The FY 2012 required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Commission's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Commission's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 83.87% funded. The actuarial accrued liability for benefits was \$13,457,607 and the actuarial value of assets was \$11,287,173, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,170,434. The covered payroll (annual payroll of active employees covered by the plan) was \$3,090,505, and the ratio of the UAAL to the covered payroll was 70.23%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Schedule of Funding Progress for Hampton Roads Planning District Commission

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|------------------------------|--------------------------------------------|---------------------------------------------------------|-----------------|--------------------|--------------------------------------------------|
| 6/30/09 | \$ 11,352,827 | \$ 12,098,963 | \$ 746,136 | 93.83% | \$ 2,843,723 | 26.24% |
| 6/30/10 | \$ 11,182,055 | \$ 13,157,357 | \$ 1,975,302 | 84.99% | \$ 2,883,251 | 68.51% |
| 6/30/11 | \$ 11,287,173 | \$ 13,457,607 | \$ 2,170,434 | 83.87% | \$ 3,090,505 | 70.23% |

The information presented in the Schedules of Employee Contributions and Funding Progress was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

1. Valuation date June 30, 2011
2. Actuarial cost method Entry Age Normal
3. Amortization method Level Percent of Pay, Open
4. Payroll growth rate 3.00%
5. Remaining amortization period 30 years
6. Asset valuation method Five-Year Smoothed Market Value
7. Actuarial assumptions:
 - a. Investment rate of return * 7.00%
 - b. Projected salary increases *
 - 1) Non – LEO Members 3.75% to 5.60%
 - 2) LEO Members 3.50% to 4.75%
 - c. Cost-of-living adjustment 2.50%

* Includes inflation of 2.50%

Deferred Compensation Plan

The Commission has a deferred compensation plan under which the participants may defer a portion of their annual compensation subject to limitations of Internal Revenue Code Section 457. Any contributions made to the deferred compensation plan are not available to employees until termination, retirement, death, or unforeseeable emergency. Contributions to the plan are administrated by a third party administrator, ICMA Retirement Corporation.

6. Leases

The Commission entered into a three-year lease for office space in Hampton commencing March 2005. The lease agreement required monthly payments of \$944 through February 28, 2007, with an annual increase of 3% on March 1 of each year through February 28, 2008. This lease was renewed for a period of five years commencing March 2008. The new lease agreement requires monthly payments of \$1,002 through February 28, 2009, with an annual increase of 3% on March 1 of each year through February 28, 2013. Total rent expense for 2012 and 2011 was \$14,704 and \$14,055 respectively.

Future minimum lease payments are \$9,024 for fiscal year 2013.

7. **Compensated Absences**

The Commission accrues for vested vacation and sick pay when it is earned by employees. Vacation and sick pay are earned based on years of employment. The amount of vested vacation and sick pay accrued was \$606,008 and \$582,805 for 2012 and 2011, respectively.

8. **Net Assets**

Unrestricted-commission designated net assets are available for the following purposes:

| | 2012 | 2011 |
|-----------------------------------------------------|-------------------|---------------------|
| Regional Water (H2O) (337) | \$ 499,662 | \$ 468,042 |
| Stormwater (338) | 447,551 | 350,428 |
| VRS/VRSLI reserve (39509) | 400,000 | 400,000 |
| Regional Wastewater Program (348) | 298,517 | 285,771 |
| Capital building replacement reserve (39504) | 134,760 | 99,457 |
| Network servers/software reserve (39503) | 30,000 | 20,000 |
| Telephone system replacement reserve (39502) | 21,000 | 14,000 |
| Hampton recovery center reserve (39508) | 18,000 | 10,000 |
| Solid Waste Special Contracts Local (39200) | 17,721 | 20,948 |
| Vehicle replacement reserve (39501) | 15,000 | 10,000 |
| Building operations and maintenance reserve (39505) | 14,745 | 9,745 |
| HR WET Info (330) | 12,452 | 46,783 |
| Debris Management (39601) | 10,025 | - |
| Municipal Construction Std (391) | 5,979 | (722) |
| Interior upgrades reserve (39506) | 4,556 | 1,656 |
| Corps of Engineers Contracts (349) | 590 | 590 |
| UASI FY11 (39140) | (70) | - |
| VA Institute of Marine Science (342) | (660) | - |
| DCR Bay Grant (333) | (1,847) | (989) |
| ACAMS/VACIPRSP (39135) | (8,664) | (15,696) |
| HRLFP Admin (355) | (10,283) | (8,600) |
| UASI II (39125) | (11,643) | (137,089) |
| Local Government Contracts (336) | (56,299) | 105,918 |
| Agency funded (390) | (61,363) | 10,025 |
| DEQ Contracts (334) | (100,740) | (62,844) |
| UASI (39126) | (118,284) | (44,032) |
| Metro Medical Response (350) | (234,290) | (124,203) |
| UASI (39127) | (364,970) | (39,351) |
| HAZ MITIG (39136) | - | (82,904) |
| Communication devices soft synch reserve (39507) | - | 2,000 |
| | <u>\$ 961,445</u> | <u>\$ 1,338,933</u> |

Negative balances represent restricted expenditures already made by the Commission for which grant reimbursement has not yet been received. Such grants reimburse only quarterly or semi-annually.

9. **Postretirement Benefits Other Than Pensions**

The Commission adopted Government Auditing Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for reporting the liability for non-pension postemployment benefits, the health care premiums for retirees.

(a) *Plan Provisions and Benefits*

In addition to providing the pension benefits described in Note 5, the Commission provides other postemployment benefits (OPEB) for retired employees and their spouses and dependents. The plan's benefit levels and employer contributions are governed by the Commission and can be amended by the Commission through its Personnel and Budget Committee. The Plan provides for healthcare insurance coverage for eligible retirees and their spouses and dependents. Membership in the plan at June 30, 2011 consisted of 43 active members with total active covered payroll of \$3,054,700 and 9 retirees and 8 spouses.

(b) *Plan Description*

Covered full-time active employees who retire directly from the Commission with at least 20 years of service are eligible to receive postretirement health care benefits. Non-Medicare (under age 65) and Medicare eligible (age 65+) retirees and their spouses and dependents are covered with the Commission contributing 100% of the cost of participation in Anthem (PPO) or Advantage 65 (PPO) health insurance plans depending upon the retiree's Medicare eligibility.

(c) *Funding Policy*

The Commission pays the full cost of coverage for healthcare benefits for qualified retirees and their spouses and dependents. The Commission has chosen to fund the healthcare benefits on a pay as you go basis, so the plan has no assets.

The current annual required contribution of the employer (ARC) is 6.8% of covered payroll. For 2012, the Commission contributed \$50,606 or approximately 1.6% of covered payroll.

(d) *Summary of Significant Accounting Policies*

No funds are set aside to pay benefits and administrative costs. These expenses are paid as they come due.

(e) *Annual OPEB Costs and Net OPEB Obligation*

The Commission's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Due to the plan's policy of not funding the ARC, there are still 30 years remaining in the amortization period as of June 30, 2012. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Commission's net OPEB obligation for the healthcare benefits:

| | |
|-----------------------------------------|--------------------------|
| Annual required contribution | \$ 218,200 |
| Interest on net OPEB obligation | 17,549 |
| Annual OPEB cost | <u>235,749</u> |
| Contributions made | 50,606 |
| Increase in net OPEB obligation | <u>185,143</u> |
| Net OPEB obligation, beginning of year | 438,731 |
| Net OPEB obligation, end of year | <u><u>\$ 623,874</u></u> |

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 were as follows:

| For Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------------------------|-----------------------------|---------------------------------------------------------------|--------------------------------|
| 2012 | \$ 235,749 | 21.5% | \$ 50,606 |
| 2011 | \$ 208,751 | 23.9% | \$ 49,968 |
| 2010 | \$ 201,100 | 30.4% | \$ 61,100 |

(f) Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,368,700. The covered payroll (annual payroll of active employees covered by the plan) was \$3,054,000, and the ratio of the UAAL to the covered payroll was 77.54 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer and subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(g) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included 7.5% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual health cost trend assumption utilizing the Getzen Trend Model – 6.3% graded to 4.70% over 80 years. The investment rate included a 3.75% payroll growth assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 30 years since the plan is not funded.

10. Commitments

In June 2012 the Executive Committee authorized the Executive Director to contract with various vendors for the 2013 fiscal year. In July 2012 the Commission entered into the following contracts for the period of fiscal year 2013:

| | |
|---------------------------------------------------------------------------------------------------------------|-----------|
| Legal counsel for assistance in the areas of stormwater permits, TMDL requirements and associated activities. | \$ 95,000 |
| Public relations and marketing consulting services on environmental matters. | 100,000 |

* * * * *



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards***

Board of Directors
Hampton Roads Planning District Commission

We have audited the financial statements of ***Hampton Roads Planning District Commission*** as of and for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of ***Hampton Roads Planning District Commission*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ***Hampton Roads Planning District Commission's*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Hampton Roads Planning District Commission's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Hampton Roads Planning District Commission's*** internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***Hampton Roads Planning District Commission's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2 and 2012-3.

The Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Dixon Hughes Goodman LLP

Norfolk, Virginia
September 11, 2012



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in
Accordance with OMB Circular A-133***

Board of Directors
Hampton Roads Planning District Commission

Compliance

We have audited ***Hampton Roads Planning District Commission's*** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ***Hampton Roads Planning District Commission's*** major federal programs for the year ended June 30, 2012. ***Hampton Roads Planning District Commission's*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of ***Hampton Roads Planning District Commission's*** management. Our responsibility is to express an opinion on ***Hampton Roads Planning District Commission's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ***Hampton Roads Planning District Commission's*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ***Hampton Roads Planning District Commission's*** compliance with those requirements.

In our opinion, ***Hampton Roads Planning District Commission*** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2 and 2012-3.

Internal Control over Compliance

Management of ***Hampton Roads Planning District Commission*** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ***Hampton Roads Planning District Commission's*** internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ***Hampton Roads Planning District Commission's*** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Norfolk, Virginia
September 11, 2012

Hampton Roads Planning District Commission

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

| Federal Granting Agency/Recipient State Agency/Grant Program/Grant Number | Federal CFOA Number | Federal Expenditures |
|----------------------------------------------------------------------------------|--------------------------------|---------------------------------|
| Federal Grants: Cash Programs: | | |
| Major Programs | | |
| Department of Homeland Security - Homeland Security Cluster | | |
| Pass-through payments - Virginia Department of Emergency Management: | | |
| Urban Areas Security Initiative II | 97.008 | \$ 968,500 |
| Urban Areas Security Initiative | 97.067 | 1,369,225 |
| Metropolitan Medical Response System | 97.071 | 924,083 |
| Critical Infrastructure Protection and Resiliency Strategic Plan | 97.073 | 1,905 |
| | | <u>3,263,713 *</u> |
| Other Federal Awards | | |
| Department of Homeland Security | | |
| Pass-through payments - Virginia Department of Emergency Management: | | |
| South Hampton Roads/Franklin & Southampton Hazard Mitigation Plan | 97.047 | 22,297 |
| | | <u>3,286,010</u> |
| Department of Transportation | | |
| Federal Transit Administration | | |
| Pass-through payments - Virginia Department of Transportation | | |
| PL Federal Aid Urban Systems (FAUS) Program | 20.205 | 1,905,902 |
| Congestion Mitigation And Air Quality Study (CMAQ) | 20.205 | 65,864 |
| SP&R Federal Aid Urban Systems (FAUS) | 20.205 | 52,238 |
| | | <u>2,024,004 *</u> |
| Department of Transportation | | |
| Federal Transit Administration | | |
| Pass-through payments - Virginia Department of Rail and Public Transit | | |
| Technical Study Grant (includes \$518,173 in pass-through expenditures) | 20.505 | 562,666 * |
| | | <u>2,586,670</u> |
| Department of Commerce | | |
| National Oceanic and Atmospheric Administration | | |
| Pass Through Payments - Virginia Department of Environmental Quality | | |
| Coastal Resources Management (NA11NOS4190122) | 11.419 | 139,653 |
| Coastal Resources Management (NA10NOS4190205) | 11.419 | 82,434 |
| | | <u>222,087</u> |
| Environmental Protection Agency - Pass-through payments | | |
| Virginia Chesapeake Bay Implementation Program (BAY-2010-09-PT) | 66.466 | 3,352 |
| Virginia Chesapeake Bay Implementation Program (BAY-2011-06-PT) | 66.466 | 2,026 |
| HR Watershed implementation Plan Development (2011-0049-021) | 66.466 | 50,000 |
| | | <u>55,378</u> |
| Total Federal Awards | | <u>\$ 6,150,145</u> |

* Type A programs. All other programs are Type B.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts in, or used in the preparation of the basic financial statements.

Hampton Roads Planning District Commission

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

1. Summary of Auditors' Results

Financial Statements

An unqualified opinion was issued on the financial statements.

Internal control over financial reporting:

There were no material weaknesses identified.

There were no significant deficiencies identified.

The audit did not disclose any material noncompliance.

Federal Awards

Internal control over major programs:

There were no material weaknesses identified.

There were no significant deficiencies identified.

An unqualified opinion was issued on compliance for major programs.

The major program is the Homeland Security Cluster (CFDA #'s 97.008, 97.067, 97.071, 97.073)

The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.

The auditee qualified as a low-risk auditee.

2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with GAGAS

None

3. Findings and Questioned Costs for Federal Awards

2012-1 Homeland Security Cluster (CFDA #'s 97.008, 97.067, 97.071, 97.073)

Criteria: When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested.

Condition: Costs for which reimbursements were requested were not paid prior to the date of the reimbursement request.

Effect: The entity is not in compliance with cash management requirements.

Questioned costs: None

Cause: The entity did not pay all invoices prior to requesting reimbursement. The two invoices in question were, however, paid within two and ten days of the request for reimbursement. Funds were not received from VDEM until over five weeks after the date of the request for reimbursement. Therefore, no funds were received in advance of expenditure.

Recommendation: The entity should review all reimbursement requests to ensure that payment has been processed prior to submission of the request.

Views of Responsible Officials and Corrective Action Plan: The entity will only submit reimbursement requests once payment has been made. If an advance is necessary, the formal cash advance procedures will be followed.

2012-2 Homeland Security Cluster (CFDA #'s 97.008, 97.067, 97.071, 97.073)

Criteria: The Virginia Department of Emergency Management (VDEM) Administrative Guide states that quarterly financial reports must be received within 15 days after the end of each quarter.

Condition: Eight of the twelve reports tested were not submitted timely by the entity.

Effect: The entity is not in compliance with reporting requirements.

Questioned costs: None

Cause: The entity submitted eight of the twelve tested quarterly reports after the due date.

Recommendation: The entity should be cognizant of all reported deadlines and ensure that reports are submitted on time.

Views of Responsible Officials and Corrective Action Plan: The Regional Emergency Management Administrator will review all quarterly reports and log when due and when submitted to VDEM. In addition, the CFO will also monitor submissions for all quarterly reports due.

2012-3 Homeland Security Cluster (CFDA #'s 97.008, 97.067, 97.071, 97.073)

Criteria: VDEM requires that the expenditures of all reported funds must reconcile to the entity's General Ledger.

Condition: The quarterly financial reports to VDEM did not agree to accounting records in nine of the twelve reports tested, due to timing differences only.

Effect: The entity is not in compliance with reporting requirements.

Questioned costs: None

Cause: Quarterly reports to VDEM are based on grant administrator manual Excel records rather than accounting reports, and these are not reconciled before reporting.

Recommendation: The entity should use proper accounting records when reporting to VDEM.

Views of Responsible Officials and Corrective Action Plan: All quarterly report submissions will report the expenditures as shown in the General Ledger (GMS statements) as run for the previous quarter. The GMS statement will be attached to the quarterly report for internal review and approval before the quarterly report is submitted.

4. Disposition of Prior Year Findings

None